

Tax Credit Contribution Fund



Proposed by Minnesota Housing Partnership

An innovative new tool that encourages local businesses and neighbors to invest in their community by creating housing opportunities.

WHY

The private market is not supplying housing that is affordable to Minnesota's workers. A public private partnership is the best way to ensure an adequate supply of housing. Our proposal incentivizes private investment and promotes community and economic development. It is about neighbors helping neighbors.

WHAT

We propose a model similar to the North Dakota Housing Incentive Fund (HIF) to promote the development and preservation of affordable housing projects.

The program is **capitalized by contributions from taxpayers** that have state income, corporate, or insurance premium tax liabilities. In exchange for contributions to affordable housing, participating taxpayers receive **credit against their state income tax liability equal to their contribution** to a specific development or the general loan pool.

The program relies on taxpayer support to provide low-cost financing to developers of affordable housing.

How it works

Eligible applicants apply to the state housing agency for funds. Successful applicants are issued a conditional commitment of funds during which time the applicants solicit contributions. If a project does not solicit the full amount of funds, the state can allocate funds from the general pool.

The funds are provided by the state agency to each project in the form of subordinate forgivable or bona fide soft loans, if requested by the developer for tax purposes. The forgivable loans require no periodic payments and are forgiven in their entirety if the project satisfies the ongoing rent/income restriction requirements.

Contributors receive a dollar-for-dollar certificated state tax credit to be claimed in the same year as the contribution against their state tax liability. If the amount of the credit exceeds the contributing taxpayer's tax liability for the taxable year, the excess may be carried forward to each of the ten succeeding taxable years.

Contributions are made on a project-specific basis or on a general pool basis to be used to fund projects statewide. If a single project receives contributions in excess of its awarded amount, the state housing agency allocates the contribution to another project.

BENEFITS

Flexibility: One of the primary benefits of this type of program is that it will allow for greater flexibility in funding different types of projects that serve different needs. Because this is a Minnesota tool, it is more flexible than the existing set of federal resources that fund new development and preservation. Minnesota Housing Finance Agency will still prioritize the types of projects to be awarded during each annual application process. The state could use this tool in conjunction with other programs or award by itself to provide gap financing.

Simplicity: The credit does not require syndication, therefore, every dollar invested stays in Minnesota and goes directly to the project.

Easy to participate: Any taxpayer with state income, corporate, or insurance premium tax liabilities would be eligible to contribute and receive a credit. Those without state tax liability, can still contribute to a development. A contribution does not give the contributor ownership interest in the housing project. The contributor only receives the tax credits in exchange for their contribution. This makes it easier for businesses in need of housing to participate.

Leverage: The program makes housing projects feasible by leveraging other private, state and federal resources.

Good for Greater Minnesota: The program will work better for Greater Minnesota than existing federal credits or other proposed state credits. Existing federal tax credit programs can be difficult to utilize outside of metropolitan communities.

Boosts local businesses:

» Banks can receive CRA credit; a huge advantage for projects in Greater Minnesota. Banks support similar programs because this model allows them to donate to projects in areas where they would not purchase federal tax credits.

» A contribution to a project is potentially eligible for a federal tax deduction in addition to a state tax credit. Similar contributions have been treated as charitable donations.

» Businesses can use the tax credit to help build the affordable workforce housing needed throughout Minnesota.

» Investments in local housing projects will pay for themselves by building the economy and creating jobs.

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